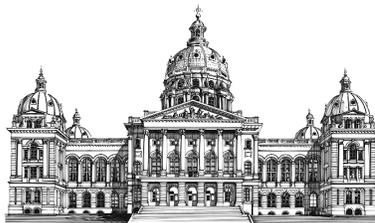


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Calculation of Residential Property Taxes and the Property Tax Rollback Amounts for Assessment Year 1999

ISSUE

This *Issue Review* explains the calculation of residential property taxes and the rollback order recently issued by the Department of Revenue and Finance. The rollback is a method of reducing the market value of a property to the taxable value by multiplying by a percentage of value subject to tax. Given the rate limitations in current law, the rollback helps to slow the growth of property taxes by limiting the growth in property values subject to tax.

CODE AUTHORITY

Chapter 422, Code of Iowa

BACKGROUND

There are four basic steps in determining the amount of property tax due on a specific property. These include:

- Determining the assessed (market) value.
- Applying any rollback percentage to determine taxable value.
- Applying any property tax credits.
- Applying a tax rate to determine the amount of tax.

This *Issue Review* will focus on the calculation of property taxes for an individual residential property. Two of the other primary classes of property (agricultural and industrial) have differences in their valuation methods, but once assessed value is determined, the amount of tax is calculated similarly.

CALCULATION OF PROPERTY TAXES

- Step 1: Determine the assessed value of the property.

Property tax assessments are completed annually by county and city assessors and are effective for the calendar year. All property tax assessments are based upon the fair market value of a property. Market value means the fair and reasonable exchange in the year in

which the property is listed and valued between a willing buyer and seller. Assessors may utilize the sale prices of comparable properties in determining market value of a property for assessment purposes. For the purposes of this **Issue Review**, the individual sample property will be assumed to have a \$100,000 assessed value for the assessment year.

- Step 2: Application of Rollback Percentage

The rollback may be applied to any class of property. The rollback calculation for residential property is comprised of two parts. First, the assessment limitation portion which requires that taxable values may not grow more than 4.0% annually. Second, the tie between Agricultural and Residential classes of property which provides that one class may not experience a higher rate of growth in taxable values than the other.

The rollback is expressed as a percentage of assessed value. For example, the residential rollback for calendar year 1999 is 54.8525%. This means that for a residential property assessed at \$100,000, the property value subject to tax is \$54,853.

Converting Assessed Value to Taxable Value

Assessed Value	\$ 100,000
x Rollback Percentage	54.8525%
= Taxable Value	\$ 54,853

- Step 3: Application of Property Tax Credits

The two most common property tax credits are the Homestead and Military Service Tax Credits. Both credits reduce the taxable **value** of a property. The Homestead Tax Credit reduces the taxable value of a residence by \$4,850 and the Military Service Tax Credit reduces the taxable value by \$1,852.

From the preceding example, the \$100,000 house, which was reduced to \$54,853 after the rollback, would have its taxable value further reduced by \$4,850 after the Homestead Tax Credit.

Applying a Property Tax Credit

Taxable Value	\$ 54,853
- Homestead Credit	4,850
= Net Taxable Value	\$ 50,003

- Step 4: Application of the Levy Rate

The levy rate is expressed in dollars of tax per \$1,000 of taxable value. For example, the average consolidated levy rate in Iowa is \$30.00 per \$1,000 of taxable value. The rates can also be expressed as a percent by dividing by 1,000 ($\$30 / 1,000 = 3.0\%$). The consolidated levy rate is the sum of all the individual taxing authorities' tax rates (such as schools, city, county, etc.).

To determine the amount of tax due on a property, the taxable value is multiplied by the tax rate. From the preceding example, the \$100,000 house which had its value reduced to \$50,003 after application of the rollback and Homestead Tax Credit, would have the following tax liability:

Application of Consolidated Levy Rate to Determine Tax Liability

Net Taxable Value	\$ 54,003
x Consolidated Levy Rate	3.0%
= Tax Liability	\$ 1,620

- Interaction Between Consolidated Levy Rates and Value-Based Credits

As the Consolidated Levy Rate increases, the dollar value of tax credits to the homeowner increases as well. Two examples will illustrate this point.

Progressive Nature of Value-Based Property Tax Credits

	<u>Taxpayer A</u>	<u>Taxpayer B</u>
Homestead Credit	\$ 4,850	\$ 4,850
x Consolidated Levy Rate	\$22.00 / thousand	\$35.00 / thousand
= Tax Reduction due to Credit	\$ 106.70	\$ 169.75

The value-based credits have the effect of providing more relief for property owners in higher tax rate areas compared to lower tax rate areas.

Additionally, value-based tax credits are progressive in that they provide proportionately more tax relief to lower value homes than to higher value homes. In the following example, both homeowners receive the same Homestead Credit even though the one home has roughly twice the taxable value of the other.

Percentage Impact of Homestead Credit on Two Different Homes

	<u>Taxpayer A</u>	<u>Taxpayer B</u>
Taxable Value	\$ 50,000	\$ 100,000
- Homestead Credit	4,850	4,850
= Net Taxable Value	45,150	95,150
x Consolidated Levy Rate	3.0%	3.0%
= Tax Liability	1,355	2,855
Dollar Value of Homestead Credit	146	146
Percent Reduction in Taxes	9.7%	4.9%

Over time, unless the dollar value of the credit is increased, the relative impact of the credit declines due to inflation. The last time the value of the Homestead Credit was increased was for assessments effective January 1, 1981. If the Credit was indexed for inflation from 1982 onward, the value of the Credit as of January 1, 1999, would be \$8,454. The inflationary effect is somewhat offset by the rollback which has reduced the taxable value of properties by approximately 15.3% since 1981. Taking the rollback into account and adjusting for inflation, the Homestead Credit would be \$7,161.

ROLLBACK ORDER FOR ASSESSMENT YEAR 1999

On November 1, 1999, the Department of Revenue and Finance issued a rollback order for the various classes of property. These rollback amounts will affect the valuations for taxation purposes for FY 2001. The rollback order is as follows:

Class of Property	Rollback Amount
Residential	54.8525%
Commercial	98.7732%
Agricultural	96.3381%

Industrial		100.0000%
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This is the first time since 1983 that residential, commercial, and agricultural property classes have all experienced a rollback in the same year. Due to the change in the rollback for residential property, an individual property's assessed value could increase by 2.97% and (assuming no change in rate) there would be no increase in tax.

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